

Message Text

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CHEROKEE

E.O. 11652: GDS

TAGS: ENRG, IR

SUBJECT: ACTION ,MEMORANDUM(GSS SENSITIVE)

' IRAN BILATERAL AGREEMENT

FOR THE SECRETARY FROM ROBINSON.

1. JUST BEFORE MY DEPARTURE FROM PARIS THIS MORNING I HAD A TELEPHONE CONVERSATION WITH ANSARY IN WHICH HE REPORTED THAT THE SHAH WAS STILL DETERMINED TO FIND A BASIS FOR OUR FIVE-YEAR BILATERAL OIL ARRANGEMENT; HOWEVER, AT THE SAME TIME HE RECONFIRMED THAT IN VIEW OF OUR NEED FOR CONGRESSIONAL APPROPRIATION IT WAS NOW TOO LATE TO ESTABLISH A LONG-TERM AGREEMENT BASED ON THE CURRENT OPEC PRICE. ACCORDINGLY, HE HAS COUNTER PROPOSED A MODIFICATION OF THE COMBINED INTERIM AND LONG-TERM AGREEMENT WHICH WE SUBMITTED TO ANSARY IN OUR MEETING ON THURSDAY TO INCLUDE THE FOLLOWING BASIC PROVISIONS:

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A. AN ARRANGEMENT FOR THE SALE TO THE U.S. OF 500,000

BARRELS PER DAY AT THE PRESENT PRICE FOR A PERIOD OF 120 DAYS. THERE WOULD BE NO CHANGE IN PRICE THROUGH THAT PERIOD AND, IN ADDITION, WE WOULD HAVE THE BENEFIT OF 110 DAY INTEREST FREE MORATORIUM PERIOD. THE U.S. WOULD ACT AS AGENT WITHOUT FINANCIAL RISK AND ANY OIL THAT WE FAILED TO DISPOSE OF COULD BE RETURNED TO IRAN AT THE END OF THE PERIOD.

B. THE INTERIM AGREEMENT WOULD BE TIED IN WITH A FIVE-YEAR COMMITMENT TO BE EFFECTIVE FOLLOWING CONGRESSIONAL APPROVAL, WHICH WOULD PROVIDE FOR A CONTINUATION OF PURCHASES AT 500,000 BARRELS PER DAY BUT WITH THE BASE PRICE SET AT THE OCTOBER 1 PRICE YET TO BE ANNOUNCED. THIS PRICE WOULD BE ADJUSTED MONTHLY TO THE UNITED STATES WHOLESALE PRICE INDEX BUT WITH A SUFFICIENTLY LONG INTEREST FREE MORATORIUM PERIOD TO INSURE THAT OUR EFFECTIVE COST IS ALWAYS BELOW THE OPEC LEVEL. ALL

OTHER TERMS ARE THOSE WE HAVE INCORPORATED INTO OUR PREVIOUS PLAN.

2. MY REACTION TO THIS PROPOSAL IS AS FOLLOWS:

A. THE 120 DAY ARRANGEMENT, WHICH PROVIDES THE US GOVERNMENT WITH THE RIGHT TO PURCHASE FOR USE OR RESALE 500,000 BARRELS PER DAY AT THE CURRENT PRICE WITH 110 DAY INTEREST FREE MORATORIUM PERIOD, IS CLEARLY TO OUR ADVANTAGE. WE WOULD HAVE NO RISK AND, THEREFORE, NO CONGRESSIONAL APPROPRIATION WOULD BE REQUIRED ALTHOUGH WE WOULD BE OBLIGATED TO ADVISE CONGRESS WITHIN 60 DAYS OF THE CONCLUSION OF THIS AGREEMENT. ALTHOUGH THE PROFIT WOULD BE NOMINAL ON THE 15 MILLION BARRELS PURCHASED IN SEPTEMBER, IT COULD BE VERY SIGNIFICANT ON THE REMAINING 45 MILLION BARRELS TO BE DELIVERED DURING THE 90 DAY PERIOD, OCTOBER THROUGH DECEMBER, ASSUMING A SIGNIFICANT OPEC PRICE INCREASE.

B. THE LONG-TERM PORTION OF THE PROPOSED AGREEMENT, HOWEVER, IS CLEARLY ADVERSE TO OUR INTERESTS IN SEVERAL WAYS. EVEN THOUGH WE COULD NOT ENTER INTO FORCE UNLESS
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WE OBTAINED CONGRESSIONAL APPROVAL, WHICH IS UNLIKELY ON THE BASIS PROPOSED, THE CLEAR CUT DISADVANTAGES INCLUDE:

.. 1) ACCEPTANCE IN ADVANCE OF THE NEW OCTOBER 1 OPEC PRICE, WHICH IS CLEARLY IMPOSSIBLE FROM OUR STANDPOINT;

.. 2) ACCEPTANCE OF THE PRINCIPLE OF INDEXATION ON TOP OF THAT PRICE IS CLEARLY UNACCEPTABLE, PARTICULARLY

AS THE SHAH UNDOUBTEDLY INTENDS TO USE THIS IN HIS EFFORT TO OBTAIN OPEC AGREEMENT TO INDEXATION AS A PART OF THE NEW PRICE FORMULA. (ANSARY ADVISED ME THAT THE SHAH HOPES TO ESTABLISH INDEXATION BASED ON THE WORLD INFLATION RATE WHICH WOULD EXCEED ANTICIPATED INCREASES IN THE US WHOLESALE PRICE INDEX.) THE LENGTHENING OF THE MORATORIUM PERIOD TO ASSURE THAT OUR EFFECTIVE COST IS

ALWAYS BELOW THE OFFICIAL OPEC PRICE, COMBINED WITH OUR OPTION TO CANCEL THE AGREEMENT IN THE EVENT OF A BREAK IN THE OPEC PRICE, OFFERS US PROTECTION, BUT IT IS NOT ENOUGH TO JUSTIFY THE DISADVANTAGES OF 1 AND 2 ABOVE.

3. I PROPOSE THAT WE ADVISE IRAN THAT WE CAN ACCEPT THE 120 DAY INTERIM ARRANGEMENT AS THE FIRST STEP IN A FIVE-YEAR AGREEMENT. FURTHERMORE, WE ARE PREPARED TO CONTINUE NEGOTIATION OF THE 5-YEAR ARRANGEMENT,

BUT COULD ONLY CONCLUDE SUCH AN ARRANGEMENT--WHICH WOULD OTHERWISE BE BASED UPON UNKNOWN CONDITIONS--AFTER THE NEW OPEC PRICE FORMULA HAS BEEN ANNOUNCED. IT IS ALMOST CERTAIN THAT THIS COUNTER PROPOSAL WILL BE REJECTED AS THE SHAH SEEKS PUBLIC CONFIRMATION OF OUR ACCEPTANCE OF THE OCTOBER 1 PRICE PLUS INDEXATION AS THE KEY CONDITION FOR GRANTING US THE 120 DAY INTERIM ARRANGEMENT. HOWEVER, I FEEL WE MUST NOT REJECT THE SHAH'S COUNTER PROPOSAL OUT OF HAND AND MY SUGGESTED RESPONSE SHOULD PROVIDE A BASIS FOR CONTINUING NEGOTIATIONS. WE WILL DELAY OUR ANSWER TO IRAN PENDING RECEIPT OF YOUR APPROVAL FOR OUR SUGGESTED COUNTER PROPOSAL. IN THE MEANTIME, WE HAVE BEEN ADVISED BY ANSARY THAT YOU MAY RECEIVE A MESSAGE FROM THE SHAH DIRECTLY APPEALING TO YOU FOR YOUR

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SUPPORT.

4. I AM GOING TO MARTHA'S VINEYARD TOMORROW MORNING FOR A 6-DAY REST BUT MY OFFICE CAN REACH ME BY TELEPHONE. ANSARY WILL CALL ME THERE NEXT TUESDAY TO REPORT ON THE MEETING HE WILL HAVE WITH THE SHAH ON HIS RETURN TO IRAN AND TO HEAR FROM ME OUR RESPONSE TO THE SHAH'S PROPOSAL.

5. RECOMMENDATION: THAT WE ADVISE THE SHAH WE CAN ACCEPT THE 120 DAY INTERIM ARRANGEMENT AS THE FIRST STEP IN A 5 YEAR AGREEMENT ON WHICH WE ARE PREPARED TO CONTINUE NEGOTIATIONS, BUT THAT WE CAN ONLY CONCLUDE THE FINAL AGREEMENT AFTER THE NEW OPEC PRICE FORMULA HAS BEEN ANNOUNCED.

APPROVE DISAPPROVE

6. PLEASE SLUG RESPONSE: DISTRIBUTE TO S, S/S AND E ONLY.
ROBINSON

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